

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Transportation
and Development
State of Louisiana
Baton Rouge, Louisiana

January 30, 2002



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

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**DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Management Letter
Dated January 8, 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

January 30, 2002



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
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January 8, 2002

**DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2001, we considered the Department of Transportation and Development's (DOTD's) internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Report of DOTD is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter dated November 3, 2000, on DOTD for the year ended June 30, 2000, we reported findings relating to untimely closing of projects and expenditures paid from an incorrect appropriation. The finding relating to expenditures paid from an incorrect appropriation has been resolved by management. The finding relating to untimely closing of projects is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2001.

Construction Materials Not Sampled

The Department of Transportation and Development (DOTD) did not ensure that all materials used on construction projects were sampled and tested prior to acceptance of the materials and payment to the contractor. Federal regulations (23 CFR 637.205) require the department to prepare and follow a sampling plan for testing materials used in construction. A good system of internal control should also include steps to ensure that materials are in conformity with approved plans and specifications prior to acceptance and payments to the contractor. The department's *Materials Sampling Manual* establishes and standardizes construction and maintenance sampling and material acceptance requirements and requires the results of tests to be recorded on a Summary of Test Results Form. The department did prepare a sampling plan for each project; however, the sampling plan was not always followed.

LEGISLATIVE AUDITOR

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Management Letter, Dated January 8, 2002

Page 2

Eight of 45 Summary of Test Results Forms (18%) tested revealed that some samples required by the plans had not been taken. DOTD management informed us that Summary of Tests Results Forms are not prepared until the final phase of the project. Consequently, it is possible the department would not know that a materials sample was not taken until the end of the project. It cannot be readily determined how much money, if any, was paid to contractors for materials that may have been substandard because, in many instances, it is not possible to sample the materials or workmanship after the materials are used. The department has not sufficiently emphasized the importance of compliance with sampling plans. Failure to sample materials increases the risk of fraud and payments for substandard materials.

In January 2001, a settlement of \$30 million was reached with two corporations after certain former corporation employees pleaded guilty to charges of concealing the use of substandard pipe in the construction of Louisiana roadways from February 28, 1992, through October 31, 1997. The settlement was paid to the United States of America. Louisiana's portion of the \$30 million settlement was \$12 million. The \$12 million was divided into cash and credits. From a total of \$6.6 million cash, DOTD received \$5.28 million and the remainder of \$1.32 million was paid to two whistleblowers who had knowledge of the fraud. For the remainder of the \$12 million, DOTD received \$5.4 million in credits from the Federal Highway Administration for Louisiana's unobligated balances. The whistleblowers also received \$4.68 million from the United States portion of the settlement for a total paid to whistleblowers of \$6 million.

DOTD should ensure that all materials used on construction projects are sampled and tested prior to acceptance of the materials and payment to the contractor to ensure that materials are in conformity with approved plans and specifications and to reduce the risk of fraud and payments for substandard materials. Management concurs in part with this finding. Management expressed that it does have policies and procedures in place to ensure material testing is conducted and will continue to insist on the highest quality material and workmanship in its construction projects (see Appendix A, page 1).

Inadequate Monitoring of Davis-Bacon Act

DOTD did not adequately monitor the wages paid by contractors and subcontractors to ensure compliance with the requirements of the Davis-Bacon Act applicable to the Highway Planning and Construction (CFDA 20.205) program. The Davis-Bacon Act [40 USC 276(a)] requires that mechanics and/or laborers on any construction project receiving at least \$2,000 in federal financing, be paid wages not less than the minimum prevailing wage of corresponding classes of employees engaged on similar projects in the locality. The minimum prevailing wage rate is determined by the United States Department of Labor (USDOL).

LEGISLATIVE AUDITOR

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Management Letter, Dated January 8, 2002

Page 3

To ensure compliance with the Davis-Bacon Act, contractors and subcontractors submit copies of their payroll records to the DOTD district responsible for the project. A district employee is required to review the records to determine whether the contractor or subcontractor complied with the Davis-Bacon Act before forwarding these records to headquarters. Selected contractor and subcontractor payroll records for 45 separate projects were reviewed and the following discrepancies were noted:

- No evidence existed that a district employee had reviewed the payroll records for two of the pay periods in the sample. In one of these pay periods, two employees were paid below the minimum wage allowable.
- District personnel did test the payroll records for five additional employees who were paid below the minimum wage allowable; however, they did not detect the exceptions.
- DOTD did not have evidence of requesting the USDOL wage rate information for nine classifications of employees who were paid during one pay period. Consequently, DOTD could not have determined if 44 employees in these classifications were paid at least the minimum wage allowable.

After the initial district review, the DOTD *Labor Compliance Procedures Manual* requires an engineering technician at DOTD headquarters to re-review a minimum of 25% of the districts' payroll records at headquarters. While the engineering technician did have a schedule of the payroll records received, he did not have a schedule of payroll records examined. Consequently, the department did not have evidence that at least 25% of the payroll records were subjected to this second level of review.

These errors occurred because DOTD has not placed sufficient emphasis on compliance with departmental procedures. Failure to follow departmental procedures and to properly enforce the provisions of the Davis-Bacon Act increases the risk that mechanics and/or laborers will not be paid the prevailing wage for the locality and subjects the department to possible sanctions from the federal government.

DOTD should follow its established procedures to ensure compliance with the requirements of the Davis-Bacon Act. Management concurred in part with the finding. Management expressed that its procedures are adequate but outlined additional procedures that it will implement (see Appendix A, page 2).

LEGISLATIVE AUDITOR

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Management Letter, Dated January 8, 2002

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Unrecorded Commitments

At June 30, 2001, contractual commitments of \$42 million, which includes \$5 million of accounts payable, were not recorded in DOTD's project tracking system and were not reported in the department's 2001 annual fiscal report. A good system of internal control would include procedures to ensure that all contractual commitments are recorded and obligations associated with those commitments are appropriately reported at year-end. The department established the Project Management Financing System (PMFS) to provide this function. This system is intended to track all financial activity on capital outlay projects from the time they are authorized by the legislature until they are closed. PMFS is used, in part, to prepare the department's annual fiscal report.

An examination of all flood control projects disclosed that 55 flood control projects totaling \$42 million were not recorded in PMFS. Included in the \$42 million were liabilities of \$5 million for work that was completed. The department did not pay these liabilities because, while the projects had been authorized by the legislature, funds had not been appropriated to pay for them. Although Louisiana Revised Statute 48:251 allows the department to enter into contracts before funds are actually available, the existence of these obligations should, nevertheless, be disclosed in the annual fiscal report.

These conditions occurred because the section responsible for entering into the contracts did not forward the appropriate information to the section responsible for recording the commitments in PMFS. Failure to record and report all commitments and liabilities leaves the department without the information needed to properly manage its funds and could cause material misstatements in the State of Louisiana's Comprehensive Annual Financial Report.

DOTD should re-emphasize the importance of recording and reporting all commitments and liabilities. Management concurred with the finding and recommendation (see Appendix A, page 5).

Equipment Rental Rates Not Current

The equipment rental rates charged by DOTD to the Federal Highway Administration (FHWA) have not been updated since June 30, 1994. These rates are used, in part, to bill the FHWA for the cost of operating equipment on federally financed construction projects. As a result, the Highway Planning and Construction Program (CFDA 20.205) may have borne an inequitable share of costs associated with rental of equipment. OMB Circular A-87 provides that, to be allowable, costs must be reasonable and arrived at through sound business practices. However, the department has not placed sufficient emphasis on updating its rental rates. Failure to update the rates charged results in the possible overcharging or undercharging of the FHWA for the current cost of operating

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DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Management Letter, Dated January 8, 2002

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equipment. An estimate of potential questioned costs (overcharging), if any, cannot be determined at this time.

DOTD should immediately begin the process of updating the equipment rental rates charged to FHWA. Any identified overcharges should be reimbursed to the federal government. The department should seek reimbursement from FHWA for any identified undercharges. In the future, the department should update the equipment rental rates each fiscal year to ensure that rates are reasonable as required by OMB Circular A-87. Management concurred with the finding and stated that corrective action has already begun (see Appendix A, page 6).

Untimely Closing of Projects

For the fourth consecutive year, DOTD did not close completed construction projects within six months and did not file final vouchers with the FHWA to close completed projects financed in part with federal funds within one year after final acceptance. The department participates in the FHWA Highway Planning and Construction Program (CFDA 20.205). The federal regulations for this program are codified in Title 23 of the Code of Federal Regulations (23 CFR). While 23 CFR does not specifically require final voucher submission within one year of final acceptance of the projects, that has been the time frame and methodology traditionally used by FHWA and DOTD in evaluating the status of projects. A DOTD *Engineering Directives and Standards Manual* directive dated June 9, 1999, requires that all construction and associated projects (engineering, utilities, and right-of-way) be closed within six months after the final acceptance date. Final acceptance is defined as a project being ready and available for public use. A good system of internal control would include procedures to close projects in accordance with FHWA guidelines and the departmental directive. However, DOTD did not submit the necessary documents to FHWA to close 161 completed projects funded in part by FHWA within one year of the final acceptance of the project.

At June 30, 2001, DOTD has not closed 371 construction projects that were completed before January 1, 2001, or within six months as required by the directive. The Estimates Section and Project Control Section either did not receive adequate information to close the projects or did not process the information they did receive in a timely manner. The state committed funds totaling \$76,979,944 and incurred state-funded expenditures of \$68,042,553 on these 371 construction projects. The remaining \$8,937,391 of state funds committed on these projects are not available for other projects until these projects are closed.

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DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Management Letter, Dated January 8, 2002

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The 371 construction projects include 199 projects funded in part by FHWA. FHWA authorized \$142,660,506 and federally funded expenditures totaled \$129,495,094 for the 199 projects. The remaining \$13,165,412 of federal funds authorized are not available for other projects until these projects are closed.

DOTD should close completed construction projects within six months and should file final vouchers with the FHWA to close completed projects financed in part with federal funds within one year after final acceptance. Management concurred with the finding recommendation and outlined a plan of corrective action (see Appendix A, page 10).

Failure to Monitor Preliminary Engineering Projects

DOTD did not adequately monitor Highway Planning and Construction (CFDA 20.205) projects in the preliminary engineering phase to ensure that they advanced to another phase within 10 years, as required by the Code of Federal Regulations (23 CFR 630.307). Projects that do not advance to the right-of-way or construction phase within the 10-year time frame must be withdrawn from available federal funding and any federally funded expenditures of the projects should be refunded to the FHWA. An extension of the 10-year limitation can be approved by FHWA if the delay was caused by events beyond DOTD's control such as court action or environmental considerations.

FHWA informs DOTD at the beginning of each federal fiscal year of projects that have not advanced to the right-of-way or construction phase and will reach the prescribed time period by the end of that fiscal year. This notification gives DOTD a year to advance the projects to another phase or request an extension. After the tenth year, DOTD should close the projects and return any federally funded expenditures to FHWA.

While DOTD has a system to track the progress of projects, it did not adequately monitor certain projects in its system. As of September 30, 2000, the end of the federal fiscal year, the FHWA had authorized federal financing totaling \$190,358 for three projects that did not advance from the preliminary engineering phase within 10 years. The three projects had federally funded expenditures of \$140,488, which are questioned costs. The remaining \$49,870 of federal funds authorized for these projects is not available for other projects until these projects are closed. Furthermore, as of June 30, 2001, or 21 months after having been notified by FHWA of the outstanding projects, DOTD still had not advanced the projects, requested an extension, or returned the funds to FHWA.

DOTD should monitor project progress and either advance projects from the preliminary engineering phase to the right-of-way or construction phase within 10 years or request an extension, if appropriate. After the tenth year, DOTD should close the projects and return the federally funded expenditures to FHWA as required by federal regulations.

LEGISLATIVE AUDITOR

DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT STATE OF LOUISIANA

Management Letter, Dated January 8, 2002

Page 7

Questioned costs should be resolved with FHWA. Management concurred with the finding and recommendation (see Appendix A, page 11).

Theft of Payroll Funds

DOTD did not implement sufficient controls over payroll processing and, as a result, payroll funds totaling \$20,370 were stolen by a departmental employee during the period January 10, 1999, to January 7, 2001. Louisiana Revised Statute 14:67 defines theft as the misappropriation or taking of anything of value that belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

The employee's job duties included inputting payroll data into the computer system, including her own. However, an independent verification by DOTD of the amounts approved for payment was not traced to the amounts input into the computer system. The department's subsequent comparison of payroll records located at the McManus Unit in Clinton, Louisiana, to those located at the district office revealed that the employee had changed her payroll records after they were approved by a supervisor and that she was paid for overtime she did not work. Lack of management oversight provided the opportunity for the theft of funds. The department improved internal control and took disciplinary action against the employee. The investigation of this matter resulted in the termination of the employee, court-ordered restitution, 60 days of public service, and four years of supervised probation. While management acknowledged that the theft occurred, management stated that oversight was appropriate since the fraud was detected internally. More frequent oversight checks will be implemented (see Appendix A, page 12).

Additional Comment: The theft occurred over a two-year period demonstrating a weakness in internal control over payroll.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

LEGISLATIVE AUDITOR

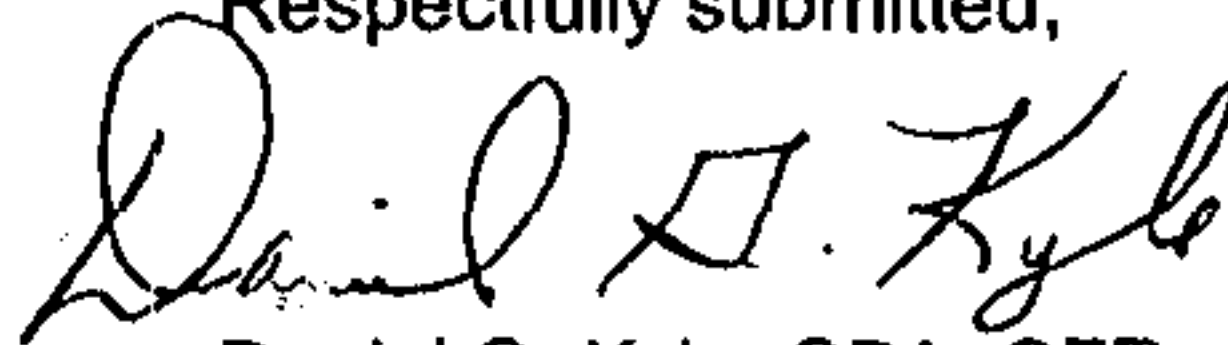
**DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA**

Management Letter, Dated January 8, 2002

Page 8

This letter is intended for the information and use of the department and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with the first name "Daniel" being more prominent.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DL:MB:PEP:ss

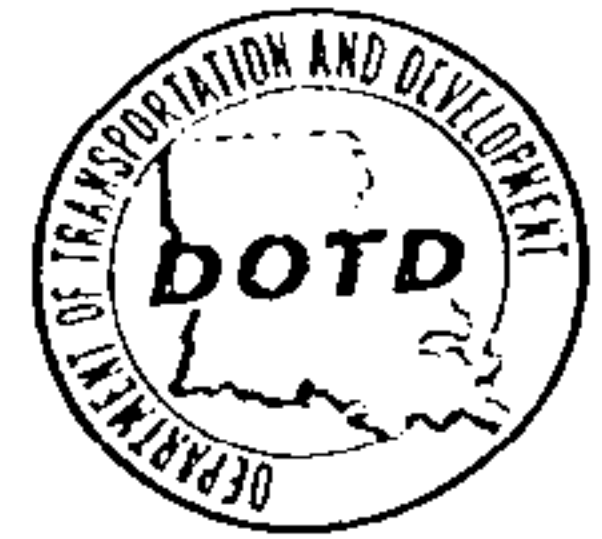
[DOTD01]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



M. J. "MIKE" FOSTER, JR.
GOVERNOR

December 11, 2001

KAM K. MOVASSAGHI
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Construction Materials Not Sampled

Dear Dr. Kyle:

The Department concurs in part with the finding. The Department clearly has policies and procedures in place to insure material testing is conducted. Quality control and quality assurance is a high priority responsibility of all project engineers and management in general.

The Department can cite innumerable examples where contractors were required to redo work for failing to meet the required specifications. In fact, the case cited in the finding is a good example of the quality of our program. The material facts and documentation provided by DOTD staff were instrumental in substantiating the whistleblower claims and successfully prosecuting the case.

The Department will continue to insist on the highest quality material and workmanship in its construction projects and emphasize QC/QA in all of its work

Sincerely,

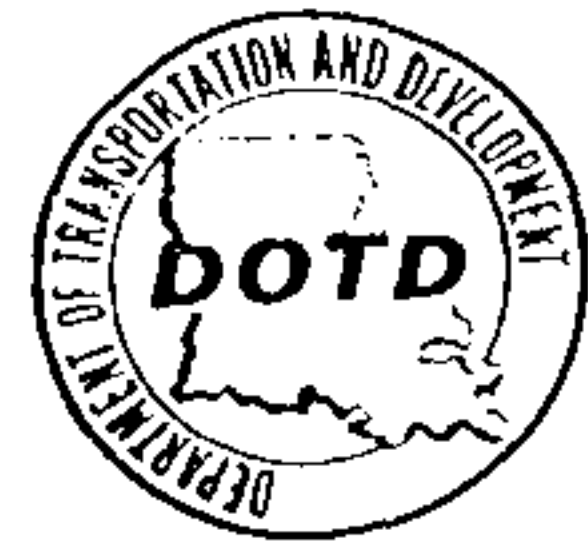
Kam K. Movassaghi, Ph.D., P.E.
Secretary

Jbjr:mab



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



KAM K. MOVASSAGHI
SECRETARY

December 11, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Inadequate Monitoring of Davis-Bacon Act

Dear Dr. Kyle:

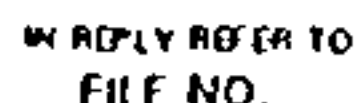
The Department concurs in part with the finding. Clearly the Department has adequate procedures in place to comply with the Davis-Bacon Act. Nevertheless, the Department will strengthen its program compliance by implementing additional procedures as outlined in the attached memo.

Sincerely,

A handwritten signature in black ink, appearing to read "Kam K. Movassaghi".

Kam K. Movassaghi, Ph.D., P.E.
Secretary

Attachment
Jbjr:mab



REFERRED TO

REFERRED FOR ACTION
ANSWER FOR MY SIGNATURE
FOR FILE
FOR YOUR INFORMATION
FOR SIGNATURE
RETURN TO ME
PLEASE SEE ME
PLEASE TELEPHONE ME
FOR APPROVAL
PLEASE ADVISE ME

BY _____ DATE _____
BY _____ DATE _____
BY _____ DATE _____

TO: MR. JOHN BASILICA
UNDERSECRETARY

FROM: MR. JAMES A. LITTLE *RL*
CHIEF, CONSTRUCTION DIVISION

DATE: NOVEMBER 13, 2001

SUBJECT: AUDIT FINDING-INADEQUATE MO

- 1) On December 11-12, 2001, Mr. Rick Holm, Systems Construction Engineer, will review in detail the existing policies and procedures with the District Construction Engineers at their regularly scheduled meeting. Special emphasis will be given in reviewing the project engineers' duties in this regard.
- 2) Within one month, each District Construction Engineer will hold a meeting with all project engineers to disseminate and review the policies and procedures.
- 3) Mr. Gene McArdle, Labor Compliance Specialist, has developed a payroll review spreadsheet (see attached sample) to ensure that at least 25% of payrolls are checked thoroughly and that any areas of concern in the project engineers' offices are addressed.
- 4) Mr. Jimmy Little, Chief, Construction Division, will review the payroll spreadsheets for completeness at least every six months.

RECOMMENDED FOR APPROVAL DATE

Mr. John Basilica
Page 2
November 13, 2001

It is important that this corrective action plan eliminates future findings regarding the Davis-Bacon Act. You may expect our full attention in monitoring and enforcing the Davis-Bacon provisions.

Please advise me if we can be of further assistance or should you have questions concerning our action plan.

Attachment



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



KAM K. MOVASSAGHI
SECRETARY

December 11, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Unrecorded Commitments

Dear Dr. Kyle:

The Department concurs with the finding which recognizes that all liabilities for the flood control program have not been recorded in PMFS. This condition was created as the Department implemented the provisions of Act 555 of 1996, Cash Management, (and RS 48:251), which, as noted, allows DOTD to enter into contracts before funds are actually available. The Department, in conjunction with the Office of Statewide Reporting and Accounting Policy (OSRAP), will develop procedures in PMFS to account for these liabilities.

Sincerely,

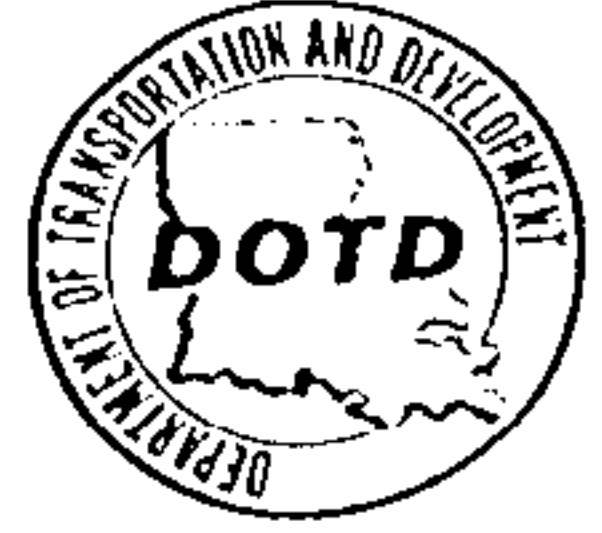
Kam K. Movassaghi, Ph.D., P.E.
Secretary

Jbjr:mab



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



KAM K. MOVASSAGHI
SECRETARY

December 11, 2001

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Equipment Rental Rates Not Current

Dear Dr. Kyle:

The Department concurs with the finding. DOTD audit report No. 010507 dated June 6, 2001 essentially had already reported on this issue (copy attached). On July 2, 2001, the DOTD Undersecretary directed that the recommendations contained in the report be implemented.

The Department established an internal task force made up of members from the Maintenance Division, the Information Services section, the Accounting section, and the Audit section to develop a more effective automated procedure for managing/updating the rental rates. Significant progress has been made and new rates are being calculated and will be in use within 60 days.

Sincerely,

Kam K. Movassaghi, Ph.D., P.E.
Secretary

attachment
Jbjr:mab



M. J. "MIKE" FOSTER, JR.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245

225/237-1306

June 6, 2001



KAM K. MOVASSAGHI
SECRETARY

AUDIT REPORT NO. 010507

MR. JOHN BASILICA
UNDERSECRETARY, MANAGEMENT & FINANCE
BATON ROUGE, LA

RE: DOTD EQUIPMENT RENTAL RATES

Our department uses an equipment management system, whereby equipment rental rates are applied to usage. A portion of this equipment rental is then billed to FHWA on the Incidental Billings. The Financial Service Section prepares a comparison between the total of equipment rental charges and the actual cost of maintaining and operating our fleet of equipment. This is a cumulative amount carried forward from year to year. At the end of Fiscal Year 1999 -2000, this cumulative amount showed that the Equipment Rental charges were about \$10.7 million more than actual cost. The biggest risk to this department is that FHWA could demand the department to pay back the portion of overcharges that have been billed to them.

The liability for the overcharges arose because the rental rates have not been adjusted in several years. We were unable to determine the exact date that the rates were last adjusted other than about 1993-94 fiscal year.

RECOMMENDATIONS

1. We recommend that the Maintenance Section adjust the equipment rental rates as soon as possible. They can do this by:
 - A. Use the letter to Mr. Karl Finch from Ms. Patty O. Parsons, Financial Services, dated August 17, 2000, (see attached) to calculate the indirect factor:

$$\text{Indirect Factor} = \frac{\text{Direct Cost} + \text{Indirect Cost} + \text{Sale of Equipment}}{\text{Direct Cost}}$$

AUDIT REPORT NO. 010507 - continued

$$\text{Indirect Factor} = \frac{\$24,307,293.11 + 9,343,533.67 - \$91,654.88}{\$24,307,293.11}$$

$$\text{Overhead Adjustment Factor} = \underline{\underline{1.3806}}$$

- B. Give this overhead Adjustment Factor to Information Systems, and ask that the Equipment Rental Rates easytrieve for Fiscal Year 1999 – 2000 be run.
 - C. Input these adjusted rental rate figures into the equipment system. Then, when future Biweekly Equipment Reports (Document Code 11's) are entered by the field personnel, the computer will automatically apply these adjusted rental rates to the usages to get the equipment rental figures.
2. We recommend that Financial Services only prepare their equipment rental rate letter once a year in August. Also, include a sentence in the letter requesting the Maintenance Systems Engineer to use this information to adjust the equipment rental rates. Also, instead of stating that "The balances for these accounts are as of period ending August XX, 20XX.", it should state that the balances for these accounts are for Fiscal Year Ending June 30, 20XX plus the year end adjustments for that year. It should also state that the balances do not include the current fiscal year costs that have been incurred in July and August 20XX.

AUDIT REPORT NO. 010507

3. The Maintenance Section, beginning with the August 2001 letter from Financial Services, should then adjust the equipment rental rates annually.

NOTE: The Maintenance Section personnel relayed to us that the current equipment computer system is very old. They said there are a high rate of input errors with the field personnel. They also stated that they cannot always retrieve everything that has been input into the system. The Maintenance Systems Engineer stated that the DOTD Budget which has been sent to the Division of Administration includes the installation of a new Maintenance Management System. It is Hansen Information Systems. Their projected earliest date to have the system running is September 2002, and projected latest date to have the system running is June 2003. They feel that after this system is implemented, it will provide much more accurate equipment rental rate figures.

We discussed the results of the audit with Mr. Sal Faldetta, Financial Services Administrator, and with Mr. John Collins, Maintenance Systems Engineer, and they concurred.


J.P. PERILLOUX
AUDIT DIRECTOR

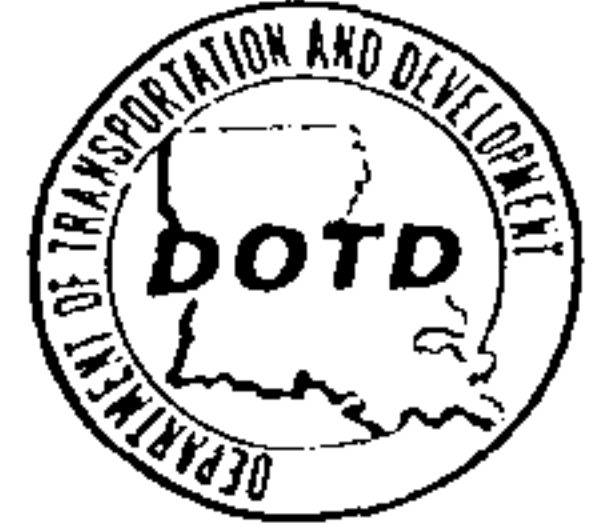
JPP:DSB:npw

Attachment

pc: Mr. William A. Temple
Mr. Sal Faldetta
Mr. John Collins (with computer run)



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



M. J. "MIKE" FOSTER, JR.
GOVERNOR

December 11, 2001

KAM K. MOVASSAGHI
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Untimely Closing of Projects

Dear Dr. Kyle:

The Department concurs with the finding. As noted, the CFR does not require final voucher submission within one year of final acceptance and therefore has not violated any federal regulation. The EDSM established by the Department with FHWA is a guide and a goal that we strive to achieve.

Significant progress has been made in this area, however, the Department now finds itself a victim of its own success. The DOTD has delivered two back-to-back record years of construction lettings totaling some \$1.24 billion, thus exacerbating the volume of projects to be closed. All of this done with zero increase in staffing. As a result, the six month standard may be unrealistic given the fiscal/staffing realities and should be revised. Accordingly, the EDSM will be revised to allow two years for closure.

The Department will continue its practice of identifying and expediting closure of those projects where substantial funds would be released thus making them available for use on additional projects.

Sincerely,

Kam K. Movassaghi, Ph.D., P.E.
Secretary

Jbjr:mab



STATE OF LOUISIANA
DEPARTMENT OF TRANSPORTATION AND DEVELOPMENT
P. O. Box 94245
Baton Rouge, Louisiana 70804-9245



M. J. "MIKE" FOSTER, JR.
GOVERNOR

December 11, 2001

KAM K. MOVASSAGHI
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

FINDING: Failure to Monitor Preliminary Engineering Projects

Dear Dr. Kyle:

The Department concurs with the finding. However, the CFR does not specifically require that monies be refunded prior to the 10-year limit and, therefore the Department has not violated any federal regulation. The three projects cited are projects that are governed by programs which DOTD administers for others (i.e. off-system bridge, urban systems). DOTD does not have complete control of project progress or lack thereof.

DOTD procedures are more than adequate to preclude a reoccurrence, nevertheless, additional attention will be given to those projects identified as "work for others". The projects have been closed out and all monies have been refunded to FHWA.

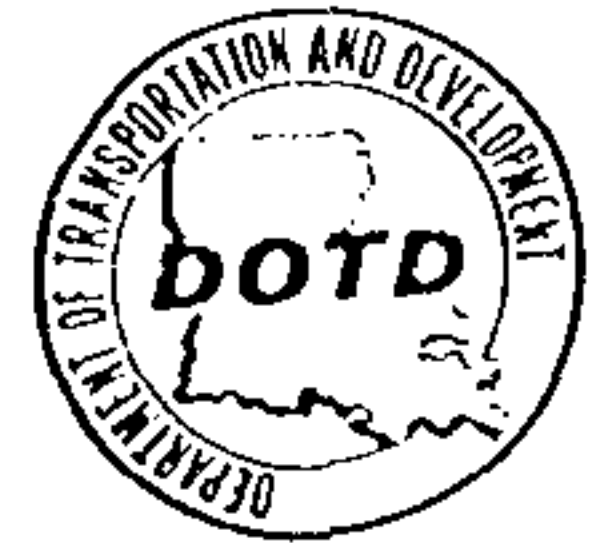
Sincerely,

Kam K. Movassaghi, Ph.D., P.E.
Secretary

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FINDING: Theft of Payroll Funds

Dear Dr. Kyle:

The Department does not concur with the finding. The Department does acknowledge the theft occurred because it discovered the fraud as a result of appropriate management oversight you contend is lacking.

Obviously, discovery of the payroll fraud sooner would have been more beneficial. Nevertheless, the Department's careful and thorough investigation resulted in a successful prosecution. More frequent oversight checks will be emphasized and implemented throughout the Department.

Sincerely,

A handwritten signature in black ink, appearing to read "Kam K. Movassaghi".

Kam K. Movassaghi, Ph.D., P.E.
Secretary

Jbjr:mab